Government publishes draft legislation to introduce Lifetime ISAs

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Introduction

In the 2016 Budget, the Government announced that a new long-term savings product, to be known as a Lifetime Individual Savings Account or "Lifetime ISA" (or "LISA"), would be introduced with effect from April 2017 (see our Alert). It has now published draft legislation (the Savings (Government Contributions) Bill 2016) to pave the way for this.

Key points

- Despite a dramatic change in personnel since the Budget, following the UK's Brexit vote on 23 June 2016, it seems that the Government is pressing ahead with plans to introduce LISAs from 6 April 2017.
- The main purpose of the Bill is to set out the legal framework for the payment of the Government bonus in relation to LISAs.

Background

Over recent years, the Government has introduced a range of reforms with the intention of promoting saving and ensuring the right incentives and products are in place to meet savers' needs. For example:

- reforms to the Individual Savings Account ("ISA") system
- the retirement flexibilities
- the introduction of the Personal Savings Allowance.

The new LISA aims to "help young people save flexibly for the long-term throughout their lives".

How will LISAs work?

From 6 April 2017, individuals between the ages of 18 and 40 will be able to open a LISA with an approved account provider. The product's key features will be:

- Individuals will be able to contribute up to £4,000 in each tax year.

- At the end of each tax year, the Government will then provide a 25% bonus on LISA contributions in respect of savers below age 50. This means that those saving the maximum annual amount into a LISA stand to receive a £1,000 Government bonus.

- An individual who dishonestly obtains a bonus to which he/she is not entitled, or assists someone else in doing so, will be liable to a penalty not exceeding the greater of £3,000 and the amount of the bonus.

- Contributions to the LISA will sit within the overall £20,000 ISA limit for the tax year 2017/18 (up from £15,240 for the tax year 2016/17).

Withdrawing funds from a LISA

Subject to certain conditions, it will be possible to withdraw funds from a LISA without triggering a tax charge when the account holder reaches age 60, for the purposes of buying a first home (worth up to £450,000), if the account holder is suffering from a terminal illness or after his/her death. Similarly, transfers between LISAs will not attract a withdrawal charge.

It will be possible to withdraw money before age 60 for other purposes but this will be subject to a 25% Government charge and a "small additional charge" (this is designed to repay the bonus element itself and any interest or growth on it).

Further details of the conditions, processes and evidence required for withdrawing funds without triggering a charge will be set out in regulations. However, when the LISA was first announced, the Government said it would explore whether savers should be able to access contributions and the Government bonus for other specific life events, and also whether it should be possible to borrow funds from the LISA without incurring a charge if the funds are fully repaid. It is not clear from the Bill whether these options are still potentially on the table.

Transferring certain savings to a LISA

During the 2017/18 tax year, savers who already have a "Help to buy: ISA" will be able to transfer any funds (including interest) built up before 6 April 2017 into a LISA without these amounts contributing towards the LISA annual contribution limit. They will also receive a 25% Government bonus on the full value of the transferred funds.

From 2018/19, any transfers from a Help to Buy: ISA will count towards the LISA annual contribution limit.

Next steps

The Bill will now make its way through the Parliamentary process, so we can expect to hear more about the framework for LISAs over the coming months.

If you would like more information or advice on any of the above, please speak to your usual Sackers' contact.

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